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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1997*/

*/ An annex contains follow-up actions to implement the Board's recommandations for 1996 as well as the comments of the Board thereon

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CHAPTER I

REPORT OF THE BOARD OF AUDITORS

Summary

The Board of Auditors has audited the operations of the voluntary funds administered by the United Nations High Commissioner for Refugees at the headquarters of the Office of the United Nations High Commissioner for Refugees (UNHCR) at Geneva and at its branch offices in Angola, Bosnia and Herzegovina, Côte d'Ivoire, the Democratic Republic of the Congo, the Philippines, the Russian Federation and the United Republic of Tanzania for the period from 1 January to 31 December 1997. The Board also validated the financial statements of the voluntary funds administered by the High Commissioner. The Board also examined the extent of implementation of the memorandum of understanding between UNHCR and the Office of Internal Oversight Services regarding internal audit coverage as requested by the Advisory Committee on Administrative and Budgetary Questions in its report of 22 October 1997 (A/52/518).

The Board's main findings are as follows:

(a) The financial statements and schedules of the voluntary funds generally conform to the United Nations System Accounting Standards, except for recognition of certain items of income and disclosure of non-expendable property;

(b) UNHCR has taken additional steps to encourage implementing partners to provide audit certificates in support of funds advanced in earlier years;

(c) Delays in signing the agreements with the implementing partners and deficiencies in maintenance of the accounts by them persist;

(d) Policy concerns regarding refugee women are not fully integrated into the project formulation process and implemented accordingly. Lack of adequate sex/age disaggregated statistics is a constraint in proper needs assessment on which plans for implementation could be based;

(e) Out of 134 field offices, 25 have been unable to complete the recording of their assets in the MINDER asset tracking system. Even where the system has been implemented, the assets have been recorded only partially. Physical verification of assets has not been carried out in the field offices because of delay in the delivery of bar code readers;

(f) The implementation of the memorandum of understanding between UNHCR and the Office of Internal Oversight Services in relation to the internal audit arrangements is at an early stage;

(g) UNHCR has started the conversion and replacement of those units of its systems applications which are not year 2000 compliant.

The key recommendations are:

(a) The Administration should review the present method of recognition of income so that its accounting policies and practices follow the United Nations System Accounting Standards;

(b) UNHCR should monitor more closely the timing of project delivery, particularly in those projects which are time critical;

(c) The Administration should take prompt and effective steps to ensure that adequate sex/age disaggregated statistics are collected and used in the formulation of programmes for women;

(d) UNHCR should encourage all field offices to respond to the High Commissioner's request so that it can make a full assessment of the work required and funds needed to implement the Machel report on refugee children;

(e) The Administration should take prompt action to complete the installation of MINDER in all field offices and implement all aspects of the system, so that the records correctly reflect the assets held by UNHCR and with the implementing partners and to improve the control over the physical assets;

(f) UNHCR should ensure that all systems are tested for year 2000 compliance with sufficient lead time to address any deficiencies.

A list of the Board's main recommendations is included in paragraph 11 of the report.

A. Introduction

1. In accordance with paragraph 22 of the statute of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the High Commissioner for the period from 1 January to 31 December 1997. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 1997 had been incurred for the purposes approved by the Executive Committee of UNHCR; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the United Nations presented fairly the financial position at 31 December 1997. The audit included a general review of financial systems and internal

controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at UNHCR headquarters at Geneva and at its branch offices in Angola, Bosnia and Herzegovina, Côte d'Ivoire, the Democratic Republic of the Congo, the Philippines, the Russian Federation and the United Republic of Tanzania.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The Board has also reviewed the adequacy of internal controls and the efficiency of procedures relating to the management of cash and action taken by UNHCR in putting into operation its stated policy guidelines on refugee women, refugee children, environment and other programmes.

5. The Board also examined the extent of implementation of the memorandum of understanding between UNHCR and the Office of Internal Oversight Services regarding resources to ensure adequate internal audit coverage as requested by the Advisory Committee on Administrative and Budgetary Questions in its report of 22 October 1997 (A/52/518). In this context the Board reviewed the adequacy and functioning of the arrangement.

6. The Board continued its practice of reporting the results of specific audits through audit observations and management letters containing audit findings and recommendations to the Administration. The practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

7. A summary of the main recommendations is given in paragraph 11 below. The detailed findings of the audit are presented in paragraphs 12 to 100.

8. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNHCR. The Administration has confirmed the facts on which the Board's observations and conclusions are based and has provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of financial issues and management issues, respectively.

1. Previous recommendations not fully implemented

9. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations, that have not been fully implemented by UNHCR. The years shown in parentheses (starting from 1994) are those in which the Board recommended that:

(a) Delays in submission of project monitoring reports by the field offices and sub-project monitoring reports by the implementing partners be avoided (1994, 1995 and 1996);

(b) The new asset management system, MINDER, should be upgraded (1994 and 1996).

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made by the Board in its report for the year ended 31 December 1996 (A/52/5/Add.5, chap. I). Details of actions taken and the comments of the Board are outlined in the annex to the present report.

2. Main recommendations

11. The Board recommends that the Administration:

(a) Review the present method of recognition of income so that its accounting policies and practices follow the United Nations System Accounting Standards (para. 16);

(b) Focus attention on timely review and cancellation of obligations no longer required (para. 32);

(c) Ensure timely submission of sub-project monitoring reports and ensure that funds are disbursed to the implementing partners only when required (para. 43);

(d) Monitor more closely the timing of project delivery, particularly in those projects that are time critical (para. 58);

(e) Take prompt and effective steps to ensure that adequate sex/age disaggregated statistics are collected and used in the formulation of programmes for women (para. 64);

(f) Encourage all field offices to respond to the High Commissioner's request so that it can make a full assessment of the work required and funds needed to implement the Machel report on refugee children (para. 69);

(g) Develop a comprehensive monitoring and evaluation system to ensure that the concerns envisaged in the environmental policy are addressed adequately (para. 75);

(h) Take prompt action to complete the installation of MINDER in all field offices and implement all aspects of the system, so that the records correctly reflect the assets held by UNHCR and with the implementing partners, and improve the control over the physical assets (para. 90);

(i) Ensure that all systems are tested for year 2000 compliance with sufficient lead time to address any deficiencies (para. 99).

B. Financial issues

1. Financial statements

United Nations System Accounting Standards

12. The Board assessed the extent to which the UNHCR financial statements for the year ended 31 December 1997 conform to the United Nations System Accounting Standards. The review indicated that the financial statements are

generally consistent with the Standards except for recognition of certain items of income and disclosure of non-expendable property as discussed below.

Income recognition

13. UNHCR recorded voluntary contributions for specific activities (special programmes) on an accrual basis instead of when received, as required under paragraph 35 of the United Nations System Accounting Standards. Thus an amount of $64.2 million was included as income during 1997 and as voluntary contributions receivable although it was for specific activities and had not been received at 31 December 1997, thereby overstating income and accounts receivable by that amount. Similarly, amounts totalling $ 24.4 million pertaining to earlier years were included in voluntary contributions receivable, even though they had not been received at 31 December 1997, further overstating receivables by this amount.

14. Although the Administration stated that it did not distinguish between voluntary contributions for general programmes and for special programmes while disclosing the accounting policy and practice, the Board considers that contributions for specific activities should be treated strictly in accordance with United Nations System Accounting Standards.

15. According to of the Financial Rules for Voluntary Funds of UNHCR, contributions-in-kind are to be taken to the appropriate account when received. The Board noted, however, that in UNHCR contributions-in-kind were also recorded on an accrual basis at the time the pledge was made. Outstanding contributions-in-kind at the end of 1997 shown in schedule 1, report I, of the financial statements amounted to $2.57 million. Although UNHCR maintained that the disclosure in note 2 (f) in this regard would suffice, the Board considers that contributions-in-kind should be recognized as income only when received.

16. The Board recommends that the Administration review the present method of recognition of income so that its accounting policies and practices follow the United Nations System Accounting Standards.

Non-expendable property

17. UNHCR has not fully complied with paragraph 49 of the United Nations System Accounting Standards, which requires full disclosure of non-expendable property, as discussed below.

Change to biennial reporting

18. In its resolution 52/212 of 22 December 1997, the General Assembly endorsed the request of the Advisory Committee on Administrative and Budgetary Questions that the High Commissioner consult with the Board of Auditors on the implication of submitting biennial reports instead of annual reports, and report thereon to the General Assembly at its fifty-third session. The Board encourages UNHCR to take this matter forward and to consult with the Board as requested.

Implementing partners

19. In its report for 1994, the Board pointed out that even though substantial advances were made to implementing partners, accountability was weak because audited financial statements and audit certificates were not being submitted by the implementing partners. In its report for 1995, the Board recommended that UNHCR ensure that audit certificates were submitted by implementing partners in sufficient time for the management to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing agencies and reflected in the financial statements. The Board reiterated this recommendation in 1996. The amounts advanced to implementing partners (other than the United Nations agencies) in the years 1995, 1996 and 1997 were $472.7 million, $491.5 million and $370.4 million, respectively, of which audit certificates had been received by 31 March 1998 only for $225.1 million (47.6 per cent) for 1995, $23.1 million (4.7 per cent) for 1996 and none for 1997.

20. The Administration stated that the presentation of audit certificates was made compulsory as of 1 January 1997 and had also been made a prerequisite for the selection of new partners. The standard text of UNHCR sub-agreements was changed in April 1998 to incorporate the obligation of implementing partners to provide such certificates for UNHCR projects. Accordingly, non-governmental organization implementing partners were requested to submit their audited financial statements within six months after the final date for liquidation of obligations. UNHCR reiterated that that was an appropriate time-frame which allowed implementing partners and their respective auditors to prepare the reports. In its view it would be unrealistic to expect compliance with shorter deadlines.

21. The Board noted the progress made in securing audit certificates to support the advances made in earlier years. The Board suggests, however, that the Administration should consider further tightening of the six-month time-frame for the submission of the audit certificates in order to enable the relevant expenditures recorded in the financial statements to be confirmed.

22. As noted in the Board's report for 1996, there were outstanding financial reports for the periods covering the years 1994 to 1996 for amounts advanced to implementing partners. The balance in the memorandum suspense account indicating outstanding financial reports for the amounts advanced between 1994 and 1996 was $442.6 million at 30 June 1997. The Board noted that the situation had improved in 1997 and that the amount had decreased to $76.8 million. In 1997, of $397.89 million advanced to implementing partners and recorded as expenditure, financial reports were yet to be received for $176.63 million at 31 March 1998. The Administration explained that as many projects had been extended and the liquidation period was three months after the termination of the project, some financial reports were not yet due.

23. The Board noted, however, that disbursements to implementing partners amounted to an average of about 40 per cent of the total budget of UNHCR. In view of this the Board considers that it is essential that UNHCR ensure timely and regular receipt of financial reports from the implementing partners.

24. In its report for 1996, the Board recommended that UNHCR should urgently review the existing system of recording of the expenditure incurred by implementing partners according to which cash advances to implementing partners were taken as programme expenditure at the time the funds were advanced.

25. For 1997 also, the Board noted that as soon as a letter of instruction was issued for a project, the cash allocation was established and an obligation created. The advances given to the implementing partner were recorded as disbursements, duly adjusting the obligation. The disbursement was monitored through a memorandum suspense account, which is outside the formal accounting process. At the end of the year the Administration, based on the information available from the field offices, cancelled any invalid unliquidated obligations.

26. The Board is concerned that the financial statements do not truly reflect the expenditure during the year in as much as large amounts in the memorandum suspense account remain unadjusted ($193.5 million at the end of 1997) and the outstanding obligations are not reflected correctly, viewed in the context of cancellations of almost one third of them in subsequent years ($69.4 million cancelled in 1997).

27. The Board was pleased to note, however, that the Administration had initiated action for a review of the system. The Board considers that this exercise should be accorded high priority.

28. The Board also noted that when implementing partners refunded to UNHCR unspent balances at the end of the year, there was no mechanism for reducing the expenditure because the refund was recorded only in the following year when the accounts for the prior year's project had been closed. The refund was therefore recorded as adjustments to prior period expenditure. As a result, the expenditure on a project was not reflected correctly in the financial statements. Also, if reports were not received from partners or were not recorded by the UNHCR office, the only information available was that the installment had been paid. This is inadequate as UNHCR does not have information about the utilization of disbursement.

29. While recognizing the improvement made in securing timely receipt of financial reports, the Board looks forward to further progress in this important area.

Liquidity position

30. The Board noted that the liquidity ratio (current assets to current liabilities) at 31 December 1997 had decreased marginally to 2.22 %, compared with a ratio of 2.29 % at 31 December 1996. The Board noted, however, that the quick ratio, which measured the liquidity position in terms of cash or near cash, increased from 1.08 % at 31 December 1996 to 1.44 % at 31 December 1997; this indicated a significant improvement in the liquidity position. This was possible because of considerable reduction in voluntary contributions receivable (down from 51 per cent of total assets in 1996 to 31 per cent in 1997) and a corresponding increase in cash and term deposits (up from 47 per cent of the total assets in 1996 to 64 per cent in 1997).

Unliquidated obligations

31. The Board noted that $69.4 million, or 34 per cent of unliquidated obligations of $205.1 million at 1 January 1997, had been cancelled during 1997. In its report for the year 1996, the Board had recommended that UNHCR focus more attention on timely review and cancellation of obligations no longer required. Although the Administration stated that the unliquidated obligations as well as cancellations as a proportion of total expenditure were declining, the Board noted that unliquidated obligations of $150.2 million were carried over to the subsequent years.

32. The Board reiterates its recommendation that UNHCR focus attention on timely review and cancellation of obligations no longer required.

2. Write-off of losses of cash, receivables and property

33. Cash and receivables amounting to $183,992 were written off during the year. The write- off included an amount of $65,042 looted in May 1996 from the UNHCR office in Kabul and $101,469 looted from its office in Goma, Democratic Republic of the Congo.

34. The details of property and other categories of losses as reported to the Asset Management Board at headquarters and written off during 1997 are as follows (in United States dollars):

Category	Value
Accident	16 178
Hijacking	62 821
Theft	503 320
Looting	127 671
Loss of property	35 189
Damage/destroyed	75 439
Wear and tear	385 002
Others	67 383
Total	**1 273 003**

3. Ex gratia payments

35. The Administration informed the Board that no ex gratia payments were made during 1997.

C. Management issues

1. Cash management

36. The Board noted that while a system of annual budgeting was in place, medium and long- term cash forecasts were not prepared. The Administration stated that although it was mandated to do so, this task had been delayed because of changes in and extended absence of staff in the Treasury Section.

It added that in 1997 it made 265 short-term investments at an average rate of 5.6 per cent for periods ranging from 5 to 216 days. The interest earned on the funds invested was $11.8 million.

37. The Board's analysis of the monthly receipts and disbursements of cash at the headquarters showed that the cash and bank balances at the end of the month varied from $225 million to $390 million. During 1997, the investments ranged from 67 to 93 per cent of the cash and bank balances (the average being 75 per cent).

38. While agreeing to the need for a reliable cash forecast mechanism, the Administration stated that as long as the uncertainties in receipts prevailed any system would be of reduced value for cash management. However, it intended to enhance the efforts to design a mechanism at the organizational level. The Administration also agreed to reconsider its investment strategy.

39. The Board considers that uncertainties in receipts will reduce if the Board's recommendation in paragraph 16 above is implemented. This will also facilitate more accurate cash forecasting.

40. The Board recommends that UNHCR prepare cash forecasts to enable the Administration to deploy its resources more efficiently and to increase the yield on its investments.

41. Payments to the implementing partners account for almost 40 per cent of UNHCR expenditure. These payments are required to be released by the field offices in accordance with the sub-agreements and progress of the projects subject to submission of the sub-project monitoring reports, and the cash on hand with the partner does not represent more than 30 per cent of the last installment.

42. The Administration stated that the financial systems did not currently allow them to provide any meaningful exception reports but in spite of this controls are in place; the field offices were responsible for ensuring that funds were disbursed only when required by the partners. While the Administration agreed that it would be desirable to have central exception reports available, production of new reports will not be possible until new systems are established. The Board, however, has commented in its reports for 1994, 1995 and 1996 that irregularities in submission of the sub-project monitoring reports by the implementing partners has been a persistent problem and therefore is concerned that there is no central monitoring in this important area.

43. The Board recommends that the Administration ensure timely submission of sub-project monitoring reports and ensure that funds are disbursed to the implementing partners only when required.

44. The UNHCR Manual lays down several control mechanisms for orderly administration of cash in field offices. The Board's examination of the functioning of the system in several offices revealed that the controls were not being implemented. Some of the deficiencies noted were:

(a) Non-verification of petty cash by the head of the office on a monthly basis (Abidjan, Dar es Salaam and Kinshasa);

(b) Non-closure of the cash book on the last day of the month (Kinshasa);

(c) Non-following of the procedure regarding duplicate key for the cash chest (Abidjan) and proper authorization of a staff member as petty cash custodian (Abidjan and Kinshasa);

(d) Large balances in non-interest bearing accounts (Abidjan, Kinshasa, and Manila);

(e) Non-setting of ceiling for cash balances to be kept in field offices (Dar es Salaam and Manila);

(f) Non-removal of the names of transferred officials from the panel of authorized signatories (Kinshasa).

The Administration assured the Board that it would strengthen the existing control mechanisms.

45. The Board recommends that the Administration improve the adherence to the control mechanisms by the field offices for improved management of cash.

2. Programme management

Maintenance of accounts by implementing partners

46. The Board s examination of the accounts maintained by various implementing partners revealed deficiencies in the maintenance of records, instances of booking of inadmissible amounts and retention of monies that were to be refunded. In three branch offices the Board noted the following cases of irregular booking of expenditure by implementing partners:

(a) An implementing partner charged $297,170 to a sub-project for the supply of firewood during the period from 26 March to 29 May 1997 although he paid only $285,902, thus overcharging UNHCR by $11,268;

(b) Another implementing partner charged to a sub-project the entire expenditure in respect of office supplies, communication and maintenance/repair of miscellaneous equipment, although only 75 per cent was chargeable;

(c) Various implementing partners purchased equipment valued at $13,416, although there was no approved budget for these items;

(d) Contrary to the terms and conditions of their agreements, two implementing partners in a health care project did not credit to UNHCR 50 per cent of the cost of the medicines given to refugees;

(e) Unspent balances amounting to $217,927 relating to the period from 1994 to 1996 were yet to be recovered from the implementing partners. Write-off action was in process for $117,927 of this amount.

47. The Administration stated that the implementing partners would be reminded to adhere to the terms and conditions of the sub-project agreements and to the budget line.

48. The Board recommends that UNHCR investigate the above cases and take prompt action to recover any amounts overpaid.

Delays in project implementation

49. The Board noted delays in project implementation in two branch offices as a result of which services were not provided to the beneficiaries in a timely manner as discussed below.

50. Out of 1,300 apartments intended to be made ready for winter by October 1996, only 1,115 were made available for occupation between March and July 1997, after the main winter period was over.

51. In August 1996, an implementing partner provided for reconstruction of 900 houses, rehabilitation of 96 public apartments and repair of 8 schools and 6 health facilities by December 1996. As at November 1997, 181 units had not been repaired and inhabited. The Board also noted that against a target of eight schools, not a single school was repaired, although materials were provided in 1996.

52. A sub-project under a care and maintenance project envisaged rehabilitation of 140 apartments and 300 private houses. The Board noted that although the project duration was from 1 July to 31 December 1996, only 180 roofs of the private houses had been repaired by the end of January 1997. The objective of providing shelter, more needed in winter, was not achieved. The Administration stated that the delay was due to difficulties encountered with municipalities and non-availability of construction materials locally.

53. Owing to a delay in signing the agreement for supply of coal and firewood, required to be supplied by 31 December 1997, heating materials for 5,500 families were only supplied between February and May 1997, after the main winter period was over.

54. Under a repatriation programme for Angolan refugees, the Board noted that $55,800 was provided for urgent procurement of medicines, vaccination of children below five years of age and special equipment. Although the Supply and Transportation Service placed orders for the medicines and equipment in March 1996 and they arrived in May 1996, the medicines were distributed in 1997.

55. The Board also noted that owing to delays in issuing letters of instruction, the objectives of projects were not achieved in a timely manner. For example, in a local settlement project, although the duration of the sub-projects was from January to August 1996, the letter of instruction for the project was issued in June 1996 and sub-project agreements with three implementing partners were signed in August 1996. The target was for training 480 students of secondary and technical education schools by the three implementing partners, but two of them did not train any students.

56. The project also targeted construction of 73 classrooms and latrines. As of the date of closure of the sub-project, 21 classrooms had been built and the remaining were in various stages of progress, although the budget had been overspent.

57. The Board considers that the objectives of the project were not achieved largely because the letter of instruction was issued five months after the commencement of the project.

58. The Board recommends that UNHCR monitor more closely the timing of project delivery, particularly in those projects that are time critical.

3. Refugee women

59. Refugee women represent 58 per cent of the adult refugee population worldwide and, therefore, are of special concern to UNHCR. The UNHCR policy on refugee women, formulated in 1989 and adopted in 1990, emphasizes the need for integration of the resources and needs of refugee women in all aspects of programme planning and implementation. The Board noted that while the recommendations of the Fourth World Conference on Women, held at Beijing in 1995, on women's issues had been adopted by UNHCR for implementation, they had not been incorporated in the policy guidelines as at April 1998.

60. The Administration stated that it planned to update the policy on refugee women in the near future to include some of the more recent developments in relation to women refugees and gender. The plans also included incorporation of relevant recommendations of the United Nations global conferences with particular reference to the Beijing Platform for Action, the mainstreaming of gender perspectives in all policies and programmes of UNHCR, and other issues. A revision of the guidelines on the protection of refugee women was in progress.

61. Although issues of concern to refugee women have been incorporated in manuals, and checklists have been prepared to assist in identifying women's needs, the Board's review indicated that the policy concerns had not been fully integrated into the project formulation process and implemented accordingly. The Administration attributed this to the staffing position and the workload.

62. The Board noted that a major constraint in the implementation of the policy on women was the lack of adequate sex/age disaggregated statistics for proper needs assessment on which the plans for implementation could be based. In spite of repeated requests of the Refugee Women's Unit, the field and desks did not always collect and use age and sex disaggregated data for needs assessment and programme planning, and even if the statistics were collected in many programmes, they were not utilized effectively.

63. The Administration reported that a directive had been issued with a requirement that country operations plans incorporate programme concerns relating to refugee women in their programme design. Efforts were also under way to incorporate some guidelines under the operations management system for guidance to the country operations programmers on how to incorporate policy priorities and guidelines in the planning.

64. The Board recommends that the Administration take prompt and effective steps to ensure that adequate sex/age disaggregated statistics are collected and used in the formulation of programmes for women.

4. Refugee children

65. UNHCR policy guidelines on refugee children, initially framed in October 1993, require that the rights of the child continue to be fully interpreted in its policies and programmes and that operational methods for assessing the needs of child and adolescent refugees be improved and that implementing partners be trained accordingly. The Board noted that in 1997 the Inspection and Evaluation Service of UNHCR had found that the needs and rights of adolescents (13-18 years) were not adequately addressed in a majority of refugee situations.

66. In July 1997, following the issue of a United Nations study on the impact of armed conflict on children, prepared by the expert of the Secretary-General, Ms. Graça Machel, (the Machel report) (see A/51/306 and Add.1), the High Commissioner asked each field office to prepare, by the end of September 1997, a plan of action for implementing the recommendations of the Machel report and to concentrate on five areas of particular and immediate concern, namely, adolescents; sexual exploitation; education; prevention/monitoring of military recruitment of children; and unaccompanied children.

67. The Board noted that by the end of April 1998 only 54 of the 90 UNHCR offices had responded and only 11 of them had done so by the due date.

68. In July 1997, the High Commissioner had also urged that the implementing partners be closely associated with the implementation of the recommendations in the Machel report. The Board is pleased to note that UNHCR and the International Save the Children Alliance were developing a joint training programme for the staff of UNHCR and the implementing partners on issues raised in the Machel report, such as working with demobilized child soldiers, and prevention of exploitation of refugee children. The first pilot training took place in May 1998 in Addis Ababa, the second in June 1998 in Pakistan and the third was scheduled for July 1998 in the region of the Commonwealth of Independent States.

69. The Board recommends that UNHCR encourage all field offices to respond to the High Commissioner's request so that it can make a full assessment of the work required and funds needed to implement the Machel report on refugee children.

5. Environment

70. An Environment Unit has been set up in UNHCR with an Environmental Coordinator to act as a focal-point. The unit is responsible, *inter alia*, for monitoring, evaluating and reporting on activities relating to implementation of UNHCR environmental policy.

71. The Board noted that the Environment Unit had done good work in creating a geographic information system to evaluate the environmental impacts in several countries.

71. The Board noted that the Environment Unit had done good work in creating a geographic information system to evaluate the environmental impacts in several countries.

72. The Board considered, however, that there were areas where improvements were required in UNHCR environmental policy. The Board noted, for example, that in 15 projects related to the Great Lakes region examined by the Board, environmental issues had not been considered in the project descriptions of 14 projects. The Board also noted that, despite the existence of a separate Environment Unit, UNHCR did not have a comprehensive appraisal system to monitor the implementation of environmental guidelines.

73. The Administration informed the Board that a number of comprehensive refugee assistance projects in Great Lake countries include environmental components. The Administration also stated that the guidelines had been sent to all branch offices and were expected to be referred to; a checklist had been developed for use by the Inspection and Evaluation Services to monitor the implementation of the policy and that the latter had used it in its Tanzanian and Rwandan missions. The Administration also stated that with the introduction of the operations management system, systematic project appraisal should be addressed more effectively.

74. The Administration informed the Board that besides the activities included in the country operation plans, specific environmental projects were being supported by the Environment Unit from the Environment Trust Fund administered by the Unit: 10 such projects with an outlay of $1.75 million were funded by the Unit during 1997. The Board reviewed project files pertaining to 9 of the projects and noted that project monitoring reports had not been received in any of the cases; the Administration subsequently informed the Board that reports of 5 out of 10 had not been received. The Board also noted that in the monitoring reports submitted by the field offices, there was no provision for separate reporting on environment related matters. As a result, it was difficult to form a view on environmental aspects in UNHCR programmes implemented in the field.

75. The Board recommends that the Administration develop a comprehensive monitoring and evaluation system to ensure that the concerns envisaged in the environmental policy are addressed adequately.

6. Procurement

76. The Board noted cases of poor control exercised by branch offices over procurement, as indicated below.

77. In July-August 1997 a UNHCR branch office purchased seven light vehicles for $230,741 for a care and maintenance project. The Board noted that this was contrary to the letter of instruction, which only provided for renting the vehicles and not for their purchase. The emergency team leader had placed the orders in July 1997 for the local purchase of the seven vehicles, without waiting for clearance from headquarters. No requests for quotation were issued to selected suppliers and no competitive bids were obtained.

78. The Board also noted that eight vehicles had already been made available for this project and therefore the vehicles purchased were additional to requirement.

79. In a sub-project for health care of 82,000 refugees in the same branch office, despite the requirement to submit purchase plans to headquarters in November 1995 the medicines were delivered in March 1997, almost three months after the termination of the sub-project.

80. The Board also noted that in October 1997 the Administration procured three vehicles costing $99,903 for the implementing partners from the local market instead of following the normal procedure of procurement through the Supply and Transportation Service, resulting in an additional cost of $18,000.

81. The Board recommends that the Administration ensure that the branch offices adhere more closely to the established procurement procedures and to the terms of letter of instruction.

Lease of building

82. The regional office at Kinshasa, Democratic Republic of the Congo, entered into a lease agreement to rent an office building with an occupancy schedule from 1996. The Board noted that UNHCR had paid advance rent for 12 months and an interest-free security deposit of rent for 3 months (total $120,000) in June 1996, but did not occupy the building until one year later in June 1997. The lease agreement did not specify details of the space leased and did not exempt UNHCR from liability for taxes.

83. The Board recommends that the Administration examine the circumstances of the case for appropriate action.

7. Asset management

Implementation of MINDER

84. The asset tracking system, MINDER, was introduced in 1995 to record and verify all non-expendable assets held by UNHCR and its implementing partners. Although implementation continued throughout 1995, 1996 and 1997, the Board observed that the field offices had taken action only on the initial phase of implementation, that is, the recording of assets. The system also provided for physical inventory check using the bar code readers. The Board had recommended in its 1996 report that physical verification of all assets, including those not recorded in the system, should be completed expeditiously. The Board noted, however, that this had not been implemented at April 1998.

85. The Board noted that the progress in recording of assets remained slow and by December 1997, 25 out of 134 field offices had yet to implement the system. By September 1997, 43,508 assets with a total value of $233 million had been entered into the system, compared with 37,828, with an estimated acquisition value of $208 million at 31 December 1996. In November 1997, the Administration informed the Board that efforts were being made to obtain initial databases and subsequently update the existing databases to perform a

worldwide consolidation by 31 December 1997. The Board noted, however, that there had been little progress in that direction, since the value of assets recorded in MINDER at 31 December 1997 increased to only $234.25 million.

86. The recording of assets held with the implementing partners has also been slow. Although the Administration estimated that about 80 per cent of the assets were with the implementing partners, they accounted for only about 25 per cent of the assets recorded in MINDER.

87. The Board noted that there had been problems in implementing the physical verification aspect of MINDER. Physical verification at headquarters had started only in December 1997. In the field offices no physical verification had been undertaken because of delay in delivery of bar code readers on account of technical difficulties and customs clearance problems. The bar code readers were sent to field offices in August 1997 together with the most recent upgrade of the MINDER system.

88. The Board was pleased to note that UNHCR had taken action to review the zero value assets (11,753 in 1996) and by December 1997 the number was brought down to 5,507.

89. The Board was concerned, however, that the shortcomings in recording and verification of assets had led to incomplete disclosure of non-expendable property in the financial statements. The Board considers that the absence of proper and complete records created risks in the safe custody of the assets.

90. The Board recommends that the Administration take prompt action to complete the installation of MINDER in all field offices and implement all aspects of the system, so that the records correctly reflect the assets held by UNHCR and with the implementing partners, and improve control over the physical assets.

8. Internal audit

91. Following a response from the Advisory Committee on Administrative and Budgetary Questions (see para. 5 above), the Board reviewed the implementation of the internal audit arrangements flowing as a result of the memorandum of understanding between UNHCR and the Office of Internal Oversight Services.

92. The memorandum of understanding, signed in April 1997 between UNHCR and the Office of Internal Oversight Services, provides that:

(a) The Office of Internal Oversight Services will provide internal audit services to UNHCR for the audit of the voluntary funds administered by the High Commissioner;

(b) A dedicated audit section within the Audit and Management Consulting Division of the Office of Internal Oversight Services will be formed with at least 12 Professional staff, including a chief at the D-1 level. Some of the staff will be assigned as resident auditors in the field;

(c) Audit coverage will aim at an average cycle of three years. The major and higher risk operations will be audited more frequently, while low risk and low volume operations will be covered less frequently;

(d) UNHCR and the Audit and Management Consulting Division will create a common database on audit communications issued and the status of implementation;

(e) Procedures for communicating audit findings to management would be drawn up.

93. The Board noted that one of the posts at Geneva has been reclassified at D-1 level. Of the four additional Professional staff required to be appointed as a result of the memorandum of understanding, the positions of two, namely resident auditors in Nairobi and Abidjan, were advertised in March 1998. The auditors were expected to be in position by the end of 1998, thus bringing Professional staffing levels to a total of 10. The Office of Internal Oversight Services informed the Board that filling the remaining two posts of resident auditors at the P-3 level envisaged in the memorandum of understanding would depend on the future level of UNHCR operations and its funding perspectives.

94. A draft medium-term audit plan, covering the period from 1998 to 2001, has been developed, but needs further refinement and reassessment of risk factors before being finalized and submitted to the UNHCR Oversight Committee.

95. According to the draft medium-term audit plan, risk rates have been assigned to UNHCR field offices and country programmes. An audit cycle and budget in terms of number of days have been planned for each office/programme. The regular audit cycle is every four years. For most regional offices, the audit cycle is two years. For small country programmes with no established UNHCR office in the country, it was kept at eight years. The Office of Internal Oversight Services expects that this can be achieved with the staffing levels expected by the end of 1998.

96. The Office of Internal Oversight Services stated that although its data and those of UNHCR on the status of implementation of audit recommendations are continuously reconciled, additional efforts are needed to create a common database as envisaged by the memorandum of understanding.

97. Since not enough time has elapsed after the signing of the memorandum of understanding, the Board will further review the implementation of the memorandum of understanding in its future audits.

9. Year 2000 issue

98. The Board has assessed the preparedness of UNHCR for managing the year 2000 issue, which threatens all information systems. The Board noted that UNHCR had prepared an inventory of the information system applications and had assessed them for year 2000 compliance. It had also started the process of conversion and replacement of those units of their system applications that were not year 2000 compliant. The Administration informed the Board that

the test platform for year 2000 compliance would not be available until late autumn 1998, when the United Nations International Computing Centre would provide the mainframe for testing.

99. The Board recommends that UNHCR ensure that all systems are tested for year 2000 compliance with sufficient lead time to address any deficiencies.

10. Cases of fraud and presumptive fraud

100. The UNHCR Administration informed the Board that no cases of fraud and presumptive fraud had come to its notice during 1997.

D. Acknowledgement

101. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the High Commissioner and her officers and their staff.

(*Signed*) Vijay Krishna Shunglu
Comptroller and Auditor General of India

(*Signed*) Osei Tutu Prempeh
Auditor-General of Ghana

(*Signed*) Sir John Bourn
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

ANNEX

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the year ended 31 December 1996

I. RECOMMENDATION 10 (a)

1. UNHCR should ensure that audit certificates are submitted by the implementing partners in sufficient time for the Administration to have the necessary assurance about the regularity, compliance and propriety of the expenditure incurred by the implementing agencies and reflected in the financial statements.

Measures taken by the Administration

2. As a first step to ensure that audit certificates are submitted by the implementing partners, UNHCR has decided to make the audit certification clause mandatory for all the projects as of 1 January 1997. Furthermore, UNHCR has decided, as of 1 May 1998, to differentiate between the various categories of implementing partners for audit purposes, as follows:

(a) United Nations and related agencies, for which no additional audit certification will be sought by headquarters other than the annual audited financial statements by the same or comparable authority that audits UNHCR accounts;

(b) Governmental partners, for whom an audit certificate is now required within three months of the final date for liquidation of commitments;

(c) International non-governmental organizations, for which audit certificates are required within six months of the end of the organization's fiscal year;

(d) National non-governmental organizations, for which audit certificates are required within six months of the final date for liquidation of commitments for all sub-agreements, or series thereof, valued at over $100,000 in any given year.

UNHCR was also establishing a comprehensive non-governmental organization database, which will include financial information about non-governmental organizations, in particular their ability to comply with UNHCR reporting and audit requirements.

Comments of the Board

3. The Board appreciates the steps taken by UNHCR. The Board considers that where projects with an annual limit of less than $100,000 are effectively rolled over from year to year they should be audited at least once during their lifetime. The Board will further monitor progress in this matter. The Board has also commented on this issue in the present report.

II. RECOMMENDATION 10 (b)

4. The UNHCR Administration should urgently review the present system of recording of expenditure by implementing partners. The Administration should also ensure that all outstanding financial reports are received from implementing partners and are used for adjusting the funds in the memorandum suspense account in the Financial Management Information System after proper verification of those reports.

Measures taken by the Administration

5. According to the Administration the majority of outstanding reports from implementing partners in respect of projects implemented in 1994, 1995 and 1996 had been received as of June 1998 and processed in the Financial Management Information System. Owing to technical constraints, some 4 to 5 per cent of instalments paid to implementing partners in respect of 1994, 1995 and 1996 projects have not yet been cleared. The manual processing of expenditure reports received from implementing partners continues, and it is expected that all but 1 per cent will have been cleared by the end of 1998. Instalments paid to implementing partners under 1997 projects remain in the memorandum suspense account primarily because the liquidation period for the majority of 1997 projects runs at least until 31 March 1998. Reports would therefore have been received and processed in the field during April and May 1998.

Comments of the Board

6. The Board appreciates the action taken and will monitor the issue. The Board has also commented on these issues in the present report.

III. RECOMMENDATION 10 (c)

7. UNHCR should focus more attention on timely review and cancellation of obligations no longer required.

Measures taken by the Administration

8. The newly established Project Unit has been made responsible for reviewing the obligations levels and ensuring that obligations are cancelled as soon as they are no longer required. There has been a constant decrease in the amount remaining as unliquidated at the end of the year and the percentage it represents compared with the total expenditures for the same year.

Comments of the Board

9. The Board has commented on the issue in the present report.

IV. RECOMMENDATION 10 (d)

10. Programme delivery and administrative support costs in the budgets of various country programmes should be reviewed and norms should be established.

Measures taken by the Administration

11. Programme delivery and administrative support costs for the period from 1994 to 1996 were reviewed and proposals were being considered to give a more realistic picture of these costs. UNHCR has also decided to cap general programmes posts at 1 January 1998 levels. Programme delivery and administrative support costs are examined throughout each year but particular attention is paid to the level of these costs during the annual budget review. Although the level of programme delivery and administrative support costs needs to be controlled, UNHCR does not generally establish norms for these costs in relation to those of operational projects. Many of the costs budgeted under programme delivery, in particular, including those activities that UNHCR is mandated to carry out, do not represent additional costs that can be Afixed@ on a regional or country basis. Administrative support costs, on the other hand, do constitute an overhead and norms can be established in relation to the size of programme delivery and operational projects. UNHCR has recently agreed to harmonize its budget structure with that of some other United Nations agencies. When that exercise is completed, the norms of administrative costs in relation to those for operations can be established and maintained.

Comments of the Board

12. The Board will monitor the progress.

V. RECOMMENDATION 10 (e)

13. Project objectives should be clearly defined and quantified so that there is no conflict between objectives and inputs and the executing agency has a clear idea of the targets to be achieved at the end of the project period.

Measures taken by the Administration

14. According to the Administration the programme management system that UNHCR has used for many years is based upon the principle of management by objectives. The budgeting system, however, remains oriented around quantifiable inputs rather than impact and achievements. The need to base both operations planning and budgeting on clearly defined objectives that are quantifiable and verifiable was identified at the inception of the change process and is one of the principal components of the operations management system which is under development. Both the planning methodology and the budgeting system within the new system will be output-oriented at all levels, from the overall goal of the operation to the objectives established with implementing partners for the components of individual projects. A new format for the annual country operations plans was introduced in 1998 to encourage offices to develop country objectives and identify progress indicators. This will be further developed in future reporting exercises.

Comments of the Board

15. The Board will monitor the progress made in this regard.

VI. RECOMMENDATION 10 (f)

16. Pending the introduction of the new operations management system, preparation of work plans should be strengthened and made more programme specific and should include appropriate performance indicators.

Measures taken by the Administration

17. UNHCR stated that it encouraged its field offices to establish work plans with implementing partners on a sub-project basis whenever it could be beneficial. In a broader context it added little value to the operations and was therefore made optional. However, the instruction on work plans in the context of the operations was being reviewed and it was planned to reintroduce that component as a planning and monitoring tool within the new system.

Comments of the Board

18. The Board will review the progress made in this regard.

VII. RECOMMENDATION 10 (g)

19. Sub-project descriptions should be specific, with clear identification of the nature of assistance and the implementing partners' responsibilities, and should include appropriate performance indicators for the purpose of monitoring.

Measures taken by the Administration

20. UNHCR stated that the Financial and Management Information System required a very close link in project documents between the budget and the narrative which described activities. While that link facilitated financial monitoring, it did not always lend itself easily to comprehensive and clear description of all activities. That was a recognized weakness that would be addressed in the new operations management system. One of the aims of that system was to devote greater attention to the project description, which should include more detailed description of the activities to be carried out and the means to monitor progress. UNHCR hoped to introduce that in the 1999 programme documents.

Comments of the Board

21. The Board will monitor progress.

IV. RECOMMENDATION 10 (h)

22. The Administration should intensify its efforts to obtain project monitoring reports.

Measures taken by the Administration

23. While accepting that recommendation, UNHCR indicated that delays arose owing to various factors, including late submission of financial reports from implementing partners. It was taking steps to screen the implementing partners in the light of their ability to produce timely financial reports, and its new budgeting process/structure would seek to simplify the exchange of financial data between UNHCR and its partners to facilitate more rapid reporting.

Comments of the Board

24. The Board will review the action taken by UNHCR in future audits.

IX. RECOMMENDATION 10 (i)

25. UNHCR should establish procedures to ensure that quick-impact programmes generate results within a limited period.

Measures taken by the Administration

26. The Administration stated that quick impact projects were often very successful in facilitating the return and reintegration of refugee populations back into their own countries. Where they were unsuccessful, there were often constraints that were unrelated to the project design. Those included security problems, insufficient funding, lack of implementing partners and disputes concerning land ownership. Despite those difficulties, the concept of quick impact projects remained an important aspect of UNHCR efforts to assist in the reintegration of returning refugees. In 1997, a special unit within the Programme and Technical Support Section was created to assist managers with the formulation of reintegration strategies, including quick impact projects. The unit had issued a manual on self-reliance and employment within that context, which supplemented guidelines issued earlier on related topics.

Comments of the Board

27. The Board will review this in its future audits.

X. RECOMMENDATION 10 (j)

28. The progress already achieved in obtaining annual purchasing plans from field offices should be continued by covering even more field offices.

Measures taken by the Administration

29. At the start of the period, the Supply and Transport Service had received less than 22 per cent of the anticipated purchasing plans from the field offices. In view of the poor response and in the absence of a clear *raison d'être* for the plans, the requirement had actually been dropped from the 1995 programmes exercise. The purchasing plans instructions in the 1996 exercise had been substantially revised: as a result purchasing plans were received from 37 countries. Improvement was made to the instructions in the 1997 exercise and 55 plans (approximately 80 per cent of the anticipated

total) were submitted; an additional 15 countries confirmed that they foresaw no procurement. Further changes were introduced to the 1998 purchasing plans. Taken together, those changes had facilitated the completion of the plans by programming staff and improved the quality of the information received. UNHCR expected that the current positive trend would continue and when the implementation of the supply chain project (for redesigning the procurement process) was completed in the year 2001, UNHCR would have fully complied with the auditors' recommendation.

Comments of the Board

30. The Board appreciates the progress made and looks forward to the full implementation of the recommendations.

XI. RECOMMENDATION 10 (k)

31. The Administration should issue guidance to all field offices and requesting units at headquarters on the need to prepare the terms of reference of the consultancy contract in a more precise and output-related manner and to include objectives, targets and delivery dates with deliverable/measurable outputs.

Measures taken by the Administration

32. UNHCR had reminded all its field offices and requesting units at headquarters of the need to adhere to basic principles in the recruitment of consultants. UNHCR had also presented a report to the Executive Committee's Standing Committee at its 11th meeting, in April 1998. The report detailed the procedures currently in effect for engagement of consultants and the action that had been taken to address the auditors' concerns. According to the report, where the service was an end product the terms of reference could be very specific in describing the service in quantitative and qualitative terms, as well as in delineating a delivery timetable. However, many consultancies contracted by UNHCR required the continuous or phased delivery of services over varying periods, which might or might not be consecutive. UNHCR stated that it ensured that the competent technical section compiled or reviewed the terms of reference and the consultant was provided with, and was fully aware of, the context in which his or her services were engaged. The various technical units provided not only the terms of reference, but also the supporting documentation, which put the consultancy in context, as well as continuous technical supervision. That enabled UNHCR to take early corrective or remedial action to reorient, extend or curtail a consultancy when circumstances had changed.

Comments of the Board

33. The Board will further review the efficacy of the working of the system.

XII. RECOMMENDATION 10 (l)

34. Within its decentralization plans, UNHCR should ensure that a central roster is maintained with up-to-date information.

Measures taken by the Administration

35. In its report submitted to the Executive Committee at its forty-eighth session, UNHCR stated that, within the decentralization plans, it intended to develop software that would ensure that personnel information could be updated at headquarters and in the field and that access to that information would be worldwide. It further stated that although the information in the roster would be held in a central data bank it could be updated by sections/units responsible for input on technical qualifications.

36. In its report submitted to the Executive Committee's Standing Committee at its 11th meeting in April 1998, UNHCR stated that the concern that the proposed decentralization of the administration of consultants could weaken the process would be addressed by ensuring that the technical sections maintained files containing performance records related to previous consultancies. In addition, the computerized roster records, which had been maintained by the Division of Human Resources Management in the past, would continue to be kept on a centralized database. Each major unit using consultants would have access to this database and would be able to access records on previous contracts. UNHCR further stated that the Division of Human Resources Management would retain responsibility for the important activities, namely, grading consultants on the basis of their qualifications and relevant experience and carrying out periodic reviews of the records maintained by units engaging consultants to ensure compliance of records and documentation required for audit purposes.

Comments of the Board

37. The Board takes note of UNHCR efforts to effect improvement in this area.

XIII. RECOMMENDATION 10 (m)

38. The MINDER system should be upgraded to enable electronic transfer of data from the procurement system to the assets management system.

Measures taken by the Administration

39. UNHCR stated that it was currently engaged in renewal of its corporate systems in headquarters and in the field and was reluctant to invest any additional funds in the upgrading of the present MINDER system. The objective of the audit recommendation, however, was recognized and had been incorporated into UNHCR plans for its new systems. Those would allow the electronic transfer of data from the procurement system to the asset management system. Current work on the supply chain project would include the logistic aspect of UNHCR assets. The new financial management information system would cover UNHCR assets from the financial viewpoint. When the new systems were in place, the tracking of assets would be greatly enhanced.

Comments of the Board

40. The Board will monitor the progress made in the matter.

XIV. RECOMMENDATION 10 (n)

41. Physical verification of all assets, including those not recorded into the system, should be completed expeditiously.

Measures taken by the Administration

42. UNHCR informed the Board that to give effect to the recommendation, bar code readers were sent to field offices in August 1997, together with the most recent upgrade of the MINDER software. The delay in sending the bar code readers to the field was due to technical difficulties with both the software and the hardware. A further delay was encountered with the customs clearance of the equipment in a number of countries. In those countries, electronic equipment required that exemption certificates be requested and issued by the competent government departments. UNHCR further stated that the physical check of assets at headquarters started early in December 1997, as part of the year-end closure exercise, field offices were carrying out physical checks of assets that had been recorded into MINDER and consolidated results of the stocktaking exercise would be known at the beginning of the second quarter of 1998.

Comments of the Board

43. The Board has commented on this subject in the present report.

CHAPTER II

AUDIT OPINION

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 to 10, the appendix and the supporting notes to the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 1997. These financial statements are the responsibility of the High Commissioner. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis and as considered by the Board of Auditors to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the High Commissioner, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all respects, the financial position at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with UNHCR stated accounting policies set out in note 2 to the financial statements which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the High Commissioner, which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(*Signed*) Vijay Krishna Shunglu
Comptroller and Auditor General of India

(*Signed*) Osei Tutu Prempeh
Auditor-General of Ghana

(*Signed*) Sir John Bourn
Comptroller and Auditor General
of the United Kingdom and Great Britain
and Northern Ireland

15 July 1998

CHAPTER III

STATEMENT OF THE HIGH COMMISSIONER'S RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees which are submitted to the Executive Committee of the High Commissioner's Programme and to the General Assembly of the United Nations.

To fulfil its responsibility, UNHCR operates within prescribed accounting policies and standards and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the United Nations Audit and Management Consulting Division of the Office of Internal Oversight Services and the United Nations Board of Auditors, during their respective audits.

In this context, the following appended financial statements, comprising statements I to III, schedules 1 to 10, the appendix and supporting notes, were prepared in accordance with the UNHCR Financial Rules (A/AC.96/503/Rev.6) and the United Nations System Accounting Standards. In Management's opinion, the accompanying financial statements present fairly the financial position of the Office as of 31 December 1997 and 1996, and the results of its operations and its cash flows of individual programmes, funds and accounts for the years then ended.

The accounts are hereby:

Certified:
(*Signed*) Jean-Marie **Fakhouri**
Controller and Director

Approved:
(*Signed*) Sadako **Ogata**
United Nations High
Commissioner for Refugees

Geneva
26 February 1998

CHAPTER IV

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

NOTES TO THE FINANCIAL STATEMENTS

(See document A/AC.96/899, *Voluntary Funds Administered by the United Nations High Commissioner for Refugees - Accounts for the year 1997*)